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Telegram: Crypto for the masses

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An encrypted messaging app plans the largest ever initial coin offering

IN A few years, millions of people will use a messaging app to make instant payments to friends across the globe or in a digital marketplace. But instead of state-backed money, they will use a cryptocurrency, the Gram, denoted by a gemstone emoji. They will be able to pay to store data--and perhaps to view content--securely and away from governments' prying eyes. All of this will take place on a single platform, TON, or "The Open Network", built by Telegram.

This is the vision that Telegram's founders, the brothers Pavel and Nikolai Durov, are flogging to investors ahead of their initial coin offering (ICO). A "presale" round to institutional investors is under way, with a wider sale of Grams to retail investors expected in a few weeks. Reports suggest the offering could raise as much as \$1.2bn, making it by far the largest ICO.

Compared with other firms selling tokens on the back of vague promises, Telegram has lots going for it. Its encrypted messenger app, particularly popular with the global crypto crowd, is already used by nearly 200m people. With such a captive audience, the Durovs' ambition of bringing virtual money to the masses over the next year or so does not sound so far-fetched. WeChat in China has already integrated payments into its messaging app (albeit without its own currency).

The ICO offers a way to monetise Telegram, which has so far been funded by Pavel Durov, and which, by the firm's estimate, needs \$400m to fund its expansion over the next three years. Mr Durov struck gold with VKontakte, a Russian social-networking site, though he was later forced out of both the company and the country after clashing with the government over data privacy. Nikolai is regarded as the technical brains behind Telegram.

Unsurprisingly, given the crypto-craze, the presale is rumoured to be significantly oversubscribed. Many Silicon Valley venture capitalists sat on the sidelines as ICOs took off last year. But Telegram, with its established brand and the Durovs' pedigree, gives them an opportunity to join the fray, says Kyle Samani, who runs Multicoin Capital, a hedge fund dedicated to crypto-currencies. A discount to early investors is probably helping to stoke demand. Yet some investors, including Mr Samani himself, remain unconvinced. Even if the Durovs' thesis that a mass-market crypto-currency will take off is right, their bold ambitions could still fail to be realised.

One potential obstacle is technology. Unlike other projects funded by ICOs, which rely on existing technology, Telegram plans to build a new blockchain, a type of decentralised ledger, with a new architecture, notes Lex Sokolin of Autonomous, a research firm. That is entirely achievable; Filecoin, for example, has already done so for data storage. But the Durovs are betting that they can solve many of the hard problems that other blockchain programmers have already given up on, says Yannick Roux, who runs Token Economy, a widely read crypto-currency newsletter. Telegram claims that TON will be able to process millions of transactions per second, far faster than happens in bitcoin, through painful-sounding processes like "infinite sharding" and "hypercube routing". Research into both was abandoned years ago by other developers.

Even if the technological hurdles are surmounted, regulation may prove a bigger obstacle. Telegram sells itself as being beyond the reach of the state. But it is under pressure to block all forms of extremist content on its app. Islamic State is believed to have used it to plan attacks in Berlin and Istanbul; the Russian authorities claim that terrorists used Telegram

to plan an attack last year on St Petersburg's metro. In a speech at the [World Economic Forum](#) in Davos last week, Britain's prime minister, Theresa May, described the app as a "home to criminals and terrorists" and said it should co-operate with authorities.

And crypto-currencies in general are attracting far more flak from regulators. This week America's [Securities and Exchange Commission](#) halted an [ICO](#) by AriseBank, which claimed to have raised \$600m, alleging investor fraud; and regulators in South Korea cracked down on allegedly illegal foreign-exchange deals carried out using crypto-currencies. Even [Facebook](#) this week announced a ban on ads promoting ICOs and crypto-currencies (although Mark Zuckerberg, the firm's founder, has expressed an interest in digital currencies). Ministers also plan to discuss a global regulatory framework for crypto-currencies at a G20 summit in March, aimed at protecting investors and preventing illicit activities such as money-laundering. Raising money should be easy for [Telegram](#). Shutting out the state will be far more testing.

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